

## **Questions for the Record from Subcommittee Chairman John B. Larson**

### *The small business case for Social Security – for Nancy Altman:*

#### *How does Social Security encourage entrepreneurship and help small businesses thrive?*

Owners of small businesses and their employees alike need insurance against lost salaries and wages. Social Security provides that essential wage insurance. It replaces wages lost in the event of old age, disability or death. Moreover, it does so without imposing on those owners and entrepreneurs substantial administrative burdens, since record-keeping, disclosure, and other administrative responsibilities are performed by the Social Security Administration.

Because all entrepreneurs and owners of small businesses participate in Social Security, they can take the economic risks required because they and their families have the guaranteed floor of protection that Social Security provides. This is protection that no businesses – and certainly no entrepreneurs just starting out -- can provide themselves.

One cannot save for the risk of disability or dying prematurely leaving dependents, both risks that Social Security covers. Disability insurance is a rare employee benefit. Even when provided, it provides only a small fraction of the protection that Social Security provides. Moreover, insurance is needed to protect against the so-called longevity risk, when wages are lost as the result of retirement. Social security protects against that risk, as well. Furthermore, unlike private sector annuities, Social Security provides joint and survivor annuities, where the spousal and widow(er) portions do not reduce the life annuity portion by even a penny. These and other aspects of Social Security's valuable protections are unavailable in the private sector.

While the best private sector defined benefit plans offer some protection, their administrative costs, complexity, and burdens have caused even the largest, most profitable employers to terminate their plans. Moreover, these arrangements have always had significant disadvantages not found in Social Security. For example, because they are not portable, they have always provided inadequate benefits for mobile workers. Furthermore, because their plan sponsors can and do go out of business, they are not as secure as Social Security.

Consequently, for enterprising Americans to be willing and able to take on the challenge of starting new businesses, they need the basic economic security that Social Security provides. It makes that risk-taking possible. It also makes it possible for employees to take a risk and join those new enterprises, knowing that the protections of Social Security will still be available to them.

Does Social Security make it safer for workers and entrepreneurs to take risks in a dynamic economy, by allowing them to change jobs or to start a new business without losing basic protections for retirement, death, or severe disability?'

Absolutely. As long as Americans are dependent on salaries and wages for basic necessities – and virtually all of us are – we need insurance against the loss of those wages. Moreover, we need insurance which is affordable, with low administrative expenses, secure, and portable from job to job. That is what Social Security provides. Of every dollar spent, less than a penny goes to administration. More than 99 cents is spent on benefits. Because Social Security's plan sponsor is the federal government, which is permanent and will not go out of business, Social Security is extremely secure. Moreover, it is totally portable from job to job. Workers and employers only need Social Security numbers; all records are kept seamlessly and accurately by the federal government.

Without the economic security that Social Security provides, employees would be much more tied to their employers, reluctant to change jobs and certainly reluctant to risk starting a new business. Those who created Social Security understood this. A staff report of the Committee on Economic Security, the interagency task force that drafted Social Security, [highlighted](#) the advantages of Social Security in providing economic security that allows workers to move more freely between jobs and entrepreneurs to start new companies:

The half century of experience with voluntary pension plans has shown that they have been inefficient and inadequate as sound social insurance measures...

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Apart from these [just-discussed] inadequacies in the plans themselves, industrial retirement systems have entailed certain unfortunate social consequences...[T]he provisions of pension plans which attempt to tie employees to a particular firm are undesirable...

...Viewed as a means of providing security to industrial workers in old age, because of their limited application and restrictive provisions requiring long and continuous service for a single employer, they are wholly inadequate. Nor do they give promise of substantially adequate protection in the future. Social Security with a far broader coverage and without these restrictions is essential to old age security.